2010 REGULAR SESSION
ACTUARIAL NOTE SB 84

Senate Bill 84 SLS 10RS-474 **Engrossed with Senate Committee Amendments** **Author:** **Senator D. A. "Butch" Gautreaux** **Date: April 13, 2010** **LLA Note SB 84.02** **Organizations Affected:** **Parochial Employees' Retirement System (PERS)** **EG SEE ACTUARIAL NOTE APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** David K. Greer **David K. Greer, CPA** **Assistant Legislative Auditor and** **Director of Performance Audit** **and Actuarial Services**

Bill Header: PAROCHIAL EMPLOYEES RETIREMENT: Requires any employer who exits the system to pay its portion of the liabilities. (7/1/10)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	Savings, See Actuarial Analysis Below
Total Five Year Fiscal Cost	
Expenditures	$0
Revenues	Increase, See Actuarial Analysis Below

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with other fiscal concerns.

Actuarial Cost (Savings) to:	Increase (Decrease) in The Actuarial Present Value
All Louisiana public retirement systems	Savings, See Actuarial Analysis Below
Other Post Retirement Benefits	$0
Total	Savings, See Actuarial Analysis Below

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits. Note: it includes the cash flow effect of the benefit changes on the retirement systems, the Office of Group Benefits, as well as other fiscal concerns.

EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	See Below	See Below	See Below	See Bleow	See Below	See Below
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	See Below	See Below	See Below	See Below	See Below	See Below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Bill Information:

Current Law

Current law permits the board of trustees of the Parochial Employees' Retirement System (PERS) to collect delinquent employer contributions with interest at a rate of 6% per annum. It does not require employers who terminate participation in PERS from paying its share of the unfunded accrued liability.

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Proposed Law

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The proposed law changes the interest rate collectible on delinquent contributions from 6% to the system's actuarial valuation rate.

SB 84 also provides that a separating employer must pay its share of the unfunded accrued liability of the plan, if any. This calculation is to be made in the following manner:

1. The calculation is to be made as of the December 31 immediately prior to the employer's separation date.

2. All employee members of the separating employer on the preceding December 31 are assumed to be active members of PERS (i.e., not inactive terminated vested members).

3. The calculation will be based on the Entry Age Normal funding method using the assumptions and method used by the actuary in performing the annual actuarial valuation on that December 31.

The separating employer may pay the amount so determined in a single lump sum payment or may pay over a ten year period in equal annual installments calculated using the valuation interest rate.

Implications of the Proposed Changes

In the future, employers participating in PERS will be required to pay for its fair share of the unfunded accrued liability that exists on the December 31 prior to its separation. It may be costly for an employer to make this payment and may prevent an employer from separating.

<u>Cost Analysis</u>

Analysis of Actuarial Costs

Retirement Systems

Under SB 84, an employer must pay its proportionate share of the unfunded accrued liability, if any, when it separates from PERS. Currently, a separating employer can shift its responsibility for UAL payments to all remaining employers. By doing so the separating employer avoids paying for liabilities associated with its own workforce. This bill will correct the perceived inequity between employers.

If an employer separates from PERS in the future it will impact agency self generated funds and local government expenditures:

1. The system will receive an immediate infusion of cash from the separating employer if it elects to pay in a lump sum. This will be an increase in agency self generated revenue to the system and an offsetting increase in local government expenditures for the separated employer in the first year.

2. If the employer elects to pay over ten year, the plan may still be able to treat the obligation as an asset (e.g., the obligation is treated as a loan to the separating employer). This will be an increase in agency self generated revenue to the system and an offsetting increase in local government expenditures for the separated employer in each of the ten years.

3. The unfunded liability of the plan will be reduced immediately.

4. Contribution requirements for the remaining employers will decrease since they do not have to pay the separating employers share of the unfunded liability. This will decrease the local government expenditures for the remaining employers.

The dollar impact on PERS of SB 84 depends on the size of the employer separating and the number and census characteristics of its employees.

The effect of the change in the interest rate on delinquent payments from 6.0% to the valuation interest rate is negligible.

Other Post Retirement Benefits

There are no actuarial costs for other post retirement benefits.

Analysis of Fiscal Costs

See actuarial analysis above.

<u>Dual Referral</u>

<u>Senate</u>	**<u>House</u>**
☐ 13.5.1 ≥ $500,000 Annual Fiscal Cost	☐ 6.8(F) ≥ $500,000 Annual Fiscal Cost
☐ 13.5.2 ≥ $500,000 Annual Tax or Fee Change	☐ 6.8(G) ≥ $500,000 Tax or Fee Increase or a Net Fee Decrease